

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 L-03 AGRE-00 SOE-02 DOE-15
/137 W

-----009383 210854Z /10

P 210824Z JUN 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9005
TREASURY/DEP WASHDC PRIORITY
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JUNE 15-21

1. SUMMARY. YEN TOPS 210.00, MOVES ON TO 208 RANGE. FURTHER DIRECT MEASURES TO REDUCE TRADE SURPLUS TO BE TAKEN UP AT JUNE 23 ECONOMIC CABINET MINISTERS MEETING AS YEN MOVEMENT ASCRIBED TO CONTINUING LARGE CURRENT ACCOUNT SURPLUS. CURRENT ACCOUNT SURPLUS IN MAY AT \$1.5 BIL (S.A.) AFTER \$1.3 BIL IN APRIL. APRIL INDUSTRIAL PRODUCTION REVISED UPWARD TO SMALL INCREASE, YIELDING SIXTH CONSECUTIVE MONTHLY RISE. PROFITS SHOW UNEXPECTED IMPROVEMENT IN FIRST QUARTER AND PRODUCTIVITY IMPROVEMENTS NOTED SINCE
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LAST QUARTER OF 1977. END SUMMARY.

2. AFTER TEMPORIZING AT THE 215-216 LEVEL OVER THE WEEK-END, THE YEN SURGED TO NEW POSTWAR HIGHS ON TUESDAY JUNE 20 AND WED JUNE 21 IN VERY ACTIVE TRADING ON THE TOKYO INTERBANK MARKET. AFTER REACHING 211.10 ON TUESDAY, THE YEN PUSHED UP TO 208.65 IN MID-MORNING TRADING WEDNESDAY.

CATALYST FOR THE UPSURGE APPEARED TO BE THE RELEASE MONDAY JUNE 19 OF CURRENT ACCOUNT FIGURES SHOWING THE MAY SURPLUS HAD INCREASED TO \$1.5 BIL (S.A) FROM AN APRIL FIGURE OF \$1.3 BILLION. BANK OF JAPAN (BOJ) INTERVENTION OF APPROXIMATELY \$100 MILLION ON TUESDAY WAS REPORTED BY THE PRESS AS WELL AS FURTHER INTERVENTION OVERNIGHT IN NEW YORK THRU THE AGENCY OF THE NEW YORK FED. THE BOJ WAS AGAIN SAID TO BE IN THE MARKET ON WED THOUGH REPORTEDLY IN LIMITED AMOUNTS, WHEN THE YEN REACHED 210.10 AND AGAIN WHEN IT HIT 208.70. THE PRESS REPORTS THERE HAS BEEN AN INCREASE IN SPECULATIVE YEN BUYING IN RECENT DAYS WITH SOME STORIES SAYING CHICAGO COMMODITIES TRADERS HAVE SWITCHED SOME OF THEIR ACTIVITIES TO YEN DEALS. A BANK OF JAPAN SPOKESMAN IS CITED AS ATTRIBUTING THE LATEST UPSURGE IN THE YEN LARGELY TO SPECULATION, INDICATING THAT THE BOJ THEREFORE BELIEVES THAT THE MARKET WILL CALM DOWN -- SOONER OR LATER. HE IS ALSO QUOTED AS SAYING THAT THE BOJ WILL INTERVENE IN THE FOREIGN EXCHANGE MARKET TO MODERATE FLUCTUATIONS BUT WILL NOT TRY TO KEEP THE YEN AT A GIVEN LEVEL BECAUSE SUCH A MOVE COULD ADD FUEL TO SPECULATION.

3. FINANCE MINISTER MURAYAMA IN COMMENTING ON THE YEN UP-SWEEP ALSO REPORTED THE MOF HAD SEEN EVIDENCE OF INCREASED SPECULATIVE CAPITAL FLOWS, WITH THE LARGE TRADE SURPLUS APPARENTLY PROVIDING THE MOTIVATION FOR THESE MOVEMENTS. UNCLASSIFIED

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MURAYAMA WENT ON TO SAY THE SCHEDULED JUNE 23 MEETING OF CABINET ECONOMIC MINISTERS WOULD HAVE TO EXAMINE EXPORT DEVELOPMENTS IN ORDER TO TAKE STEPS TO REDUCE THE SURPLUS. PRESS STORIES INTERPRETED MURAYAMA'S FOCUS ON EXPORTS AS MEANING HE WILL AGAIN PUSH FOR STRONGER RESTRAINTS ON EXPORTS. SUBSEQUENTLY MITI MINISTER KOMOTO WAS REPORTED TO HAVE TOLD THE PRESS THE GOVERNMENT MUST REDOUBLE ITS EMERGENCY IMPORT EFFORTS (ACKNOWLEDGED TO BE RUNNING BEHIND SCHEDULE) AND OUGHT TO SET A TARGET FOR JFY 78 OF \$10 BIL RATHER THAN THE PRESENT GOAL OF \$4 BIL FREQUENTLY CITED. THE TWO COMMENTS SUGGEST A REPLAY OF THE INTER-MINISTERIAL TUSSLE THAT TOOK PLACE EARLIER IN THE YEAR OVER WHETHER DIRECT ADMINISTRATIVE MEASURES TO REDUCE THE SURPLUS SHOULD FOCUS ON EXPORT RESTRAINTS OR EMERGENCY IMPORTS.

4. JAPAN'S CURRENT ACCOUNT SURPLUS FOR MAY ROSE TO \$1.5 BIL (S.A.) FROM THE \$1.3 BIL IN APRIL. (TOKYO 11131). FOR THE FIRST FIVE MONTHS OF THIS YEAR THE CURRENT ACCOUNT SURPLUS TOTALED \$8.3 BIL (S.A.). IMPORTS CONTINUED TO RISE STRONGLY IN MAY, BUT WERE MORE THAN OFFSET BY A REBOUND IN EXPORTS DURING THE MONTH. MINISTRY OF FINANCE

(MOF) ATTRIBUTES THE STRONG SURGE IN IMPORTS PRIMARILY TO ACCELERATED IMPORTS OF CRUDE OIL BEFORE THE IMPLEMENTATION OF THE NEW OIL TAX, EFFECTIVE JUNE 1. WITHOUT SUCH TAX, MOF ESTIMATES, MAY CUSTOMS CRUDE OIL IMPORTS WOULD HAVE BEEN SMALLER BY AROUND \$0.5 BIL IN DOLLAR VALUE OR BY 5 MILLION KILOLITERS IN VOLUME. STRONG EXPORTS IN MAY WERE PRIMARILY ATTRIBUTABLE TO DOL PRICE HIKES TO COMPENSATE FOR SMALLER YEN RECEIPTS DUE TO APPRECIATION OF YEN

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CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04
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AGAINST DOLLAR. VOLUME ESTIMATES SHOW LARGER INCREASE FOR IMPORTS THAN FOR EXPORTS IN MAY ON CUSTOMS BASIS (S.A.).

5. MINING AND MANUFACTURING PRODUCTION INDEX, S.A., HAS BEEN REVISED UPWARD IN APRIL AND NOW SHOWS A 0.1 PCT INCREASE IN CONTRAST TO THE PRELIMINARY ESTIMATE OF 0.5 PCT DECLINE. THIS WAS THE SIXTH MONTH IN SUCCESSION OF RISING PRODUCTION FIGURES. SINCE OCT INDUSTRIAL PRODUCTION INDEX HAS CLIMBED AT A 12.2 PCT ANNUAL RATE. FALL IN PRODUCERS' SHIPMENTS OF FINISHED GOODS HAS ALSO BEEN REVISED FROM 2.1 PCT TO 1.8 PCT IN APRIL. (TOKYO 10837).

6. CORPORATE PROFITS SHOWED SIGNIFICANT IMPROVEMENT IN THE FIRST QUARTER ACCORDING TO SEVERAL RECENTLY RELEASED

INDICATORS. THE JAN-MAR QUARTERLY FINANCIAL STATEMENTS OF INCORPORATED BUSINESSES, RELEASED BY MOF JUNE 16, SHOWED OPERATING PROFITS OF REPORTED ENTERPRISES RECORDED A 5.1 UNCLASSIFIED

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PERCENT INCREASE DURING THE QUARTER AFTER DETERIORATING IN THE SECOND HALF OF 1977 (JEI 193). NET CORPORATE PROFITS FOR THE JAN-MAR QUARTER (JEI 194) SHOWED A STRONG 29.1 PERCENT GAIN OVER THE PREVIOUS QUARTER COMPARED TO AN 11 PERCENT GAIN IN THE FOURTH QUARTER AND 14 PERCENT GAIN IN THE YEAR EARLIER QUARTER. SALES OF THE REPORTING FIRMS WERE UP 4.4 PERCENT, YEAR-OVER-YEAR, VERSUS 4.2 PERCENT IN THE FOURTH QUARTER. (JEI 192). SIMILAR IMPROVEMENTS HAVE RECENTLY BEEN NOTED IN SURVEYS BY NIHON KEIZAI AND SOME SECURITIES FIRMS AND HAVE BEEN TAKEN BY VARIOUS OBSERVERS, INCLUDING BOJ GOVERNOR MORINAGA, AS A SIGN OF IMPROVING ECONOMIC CONDITIONS, PARTICULARLY SINCE THERE HAD BEEN WIDESPREAD EARLIER FEARS OF PROFIT DETERIORATION AS A RESULT OF YEN APPRECIATION. TIGHTER COST CONTROLS, INVENTORY REDUCTIONS, REDUCED BORROWINGS, LOWER INTEREST RATES AND EXCHANGE GAINS TO IMPORTERS ALL APPARENTLY CONTRIBUTED TO THE IMPROVED PROFIT PICTURE.

7. LABOR PRODUCTIVITY IN MACHINERY INDUSTRY CONTINUED TO IMPROVE IN 1977, ALTHOUGH RATE OF INCREASE SLOWED SUBSTANTIALLY FROM 15.9 PERCENT IN 1976 TO 4.5 PERCENT. LAST YEAR LABOR PRODUCTIVITY DETERIORATED IN THE SECOND AND THE THIRD QUARTERS BUT IN THE LAST QUARTER OF 1977 AND EARLY MONTHS OF THIS YEAR IMPROVED STEADILY (FEB 1978 IS THE LATEST MONTH FOR WHICH DATA ARE AVAILABLE). THE BASE YEAR FOR THE LABOR PRODUCTIVITY INDEX HAS BEEN REVISED FROM 1970 TO 1975, STARTING WITH DEC 77 DATA. SEASONAL ADJUSTMENT FACTORS HAVE ALSO BEEN REVISED FOR ALL MONTHS OF 1977. FIGURES BELOW ARE ALL ON NEWLY REVISED BASIS. EPA HAS ALSO RECENTLY RELEASED APRIL UNIT LABOR COST.

LABOR PRODUCTIVITY, (1975 EQUALS 100; MACHINERY INDUSTRY)

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RECENT YEARS: RECENT MONTHS, S.A.:

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1976	115.9	1977: JAN	121.1	1977: AUG	121.8
-		FEB	122.1	SEP	119.0
1977	121.1	MAR	123.2	OCT	119.7
-		APR	120.6	NOV	122.5
-		MAY	120.5	DEC	123.8

- JUN 120.2 1978: JAN 122.5

- JUL 119.1 FEB 127.0

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UNIT LABOR COST, (S.A.; 1975 EQUALS 100; JEI NO. 421)

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- FEB MAR APR

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- 107.2 105.4 101.0

-

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